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Policy and Outlook

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The United States, Canada, and Mexico have concluded negotiations on the North American Free Trade Agreement (NAFTA). Trade theory suggests the "overall welfare" of participating economies will improve with free trade. The theory comes up a little short, however, when we ask the big question - "Am I going to be better or worse off?" Impacts of the free trade agreement will be uneven. We expect each country to gain, some more than others. Some individuals and businesses will gain, others will lose.

WHO WILL GAIN?

Much of the increase in U.S./Canada trade has already occurred, since the Canada-U.S. free trade agreement in 1989. The most significant increase in U.S. trade because of the NAFTA will be with Mexico, already U.S. agriculture's third largest single-country export market. The primary objective of the NAFTA is increased economic growth in Mexico. This economic growth will (1) step up Mexican demand for U.S. farm products and (2) absorb more of Mexico's farm output internally, leaving less for Mexico to export to the U.S.

Under the NAFTA, we expect our farm exports to Mexico to increase by $1.5 to $2 billion per year by the end of 15 years (the phase in period for eliminating all trade barriers with Mexico). We expect more than half the export gains to come from grains and meats.

Increased livestock and poultry production in Mexico should increase demand for U.S. grains and oilseeds. Corn will lead the growth in grain exports to Mexico. We also expect significant increases in grain sorghum and wheat exports. Increased exports of soybeans and meal will complement the growth in feed grain exports.

Mexico is one of our fastest growing export markets for fresh and processed meats. Elimination of Mexican tariffs, export taxes, import duties, and import licenses, coupled with economic growth, will strengthen this important market for U.S. farmers. We feel U.S. exports of live slaughter cattle and processed pork and chicken will increase.

Mexico is the world's largest market for milk powder and the most important outlet for U.S. nonfat dry milk exports. Our share of Mexican dairy imports should increase. We ship almost no tobacco to Mexico now due to restrictive tariffs and licenses. U.S. exports of leaf, cigarettes, and other tobacco products are expected to be 10 times the level without an agreement. Mexico is our third largest export market for wood products. Removal of the 10% to 20% Mexican import duties should cause a growth in wood exports.

WHO WILL LOSE?

Not everyone wins. U.S. Producers and other businesses engaged in the processing vegetables industry, particularly tomatoes, will face intense competition from Mexico. The NAFTA does not change stringent U.S. sanitary and health requirements on horticultural imports that assure safety from pesticide residues. U.S. import requirements for grade, size, and quality apply to Mexican fruit and vegetables, except those intended for processing.

U.S. cow-calf operators should expect increased imports of feeder calves from Mexico. An increased supply of calves could lower the price for U.S. produced calves. Mexico could decide to become a net sugar exporter. If that happens, high cost U.S. beet sugar producers and processors could be in jeopardy.

WHAT ABOUT OHIO?

Ohio agriculture should experience a net gain from the NAFTA. Most of the gains will go to firms that produce, process and handle grains, meat, and milk. The processing vegetable industry is the sector of Ohio agriculture most likely to experience negative impacts from the NAFTA. The winners will find it difficult to pinpoint gains from the NAFTA, but the losers will clearly see the pain.